

Message Text

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ACTION EB-07

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C O N F I D E N T I A L QUITO 0370

E.O. 11652: GDS
TAGS: EINV ENRG PFOR EC
SUBJ: TEXACO DISCUSSING PRICE INCREASE WITH GOE

1. SUMMARY: TEXACO IS RECOMMENDING A THIRTY TO FIFTY CENTS PER BARREL INCREASE IN THE PRICE OF ECUADOREAN CRUDE RATHER THAN AN INCREASE OF \$1.15 PER BARREL REPORTEDLY UNDER CONSIDERATION BY THE GOE. TEXACO FEARS THAT THE GOE MAY GO UP THE FULL TEN PERCENT, WHICH WOULD MAKE THE PLANNED INVESTMENT PROGRAM INFEASIBLE, AND ALSO MAY MAKE IMPOSSIBLE THE MARKETING OF ORIENTE CRUDE. END SUMMARY.

2. TEXACO'S PRODUCTION MANAGER FOR LATIN AMERICA, MAX CRAWFORD, CALLED ON AMBASSADOR JANUARY 14 TO BRING HIM UP TO DATE ON TEXACO'S DISCUSSION WITH FINANCE MINISTER SEVILLA AND NATURAL RESOURCES MINISTER VARGAS REGARDING THE GOE'S IMPLEMENTATION OF THE OPEC PRICE INCREASE. (VARGAS HAS ALREADY ANNOUNCED AN INCREASE OF 10 PERCENT-- PRESUMABLY BASED ON OFFICIAL SALES PRICE OF \$11.45 PER BARREL--BUT THE INCREASE ACTUALLY IS STILL UNDER STUDY.) VARGAS ASSURED TEXACO THAT "HE WILL TAKE CARE OF THEM" AND HINTED THE GOE MIGHT INCREASE ITS PRICES EIGHT AND ONE-HALF PERCENT RATHER THAN TEN PERCENT.
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3. TEXACO HAS PRESENTED A PRELIMINARY PROPOSAL TO BOTH MINISTERS SUGGESTING THAT THE GOE LOWER THE REFERENCE PRICE (NOW \$13.90 A BARREL) TO A WEIGHTED AVERAGE OF CEPE'S ACTUAL SALES PRICE IN ITS THREE MARKETS/ THE US, WEST COAST, THE CARIBBEAN AND WEST COAST SOUTH AMERICA. CRAWFORD SAID HE THOUGHT THIS NEW "REFERENCE PRICE" WOULD BE SOME-

WHERE BETWEEN \$12.40 AND 12.90 A BARREL AND WOULD CONVENIENTLY ALLOW THE GOE TO RAISE INCOME TAX AND ROYALTY PERCENTAGES FOR PUBLIC CONSUMPTION. CRAWFORD EXPLAINED THAT TEXACO IS ASKING FOR AN INCREASE IN GOVERNMENT TAKE OF ONLY THIRTY TO FIFTY CENTS; AN INCREASE HELD TO THAT MODERATE AMOUNT WOULD ALLOW TEXACO TO INCREASE ITS MARGIN FROM THE PRESENT EIGHTY CENTS A BARREL TO \$1.25 A BARREL AND THUS TO IMPLEMENT ITS SHARE OF THE \$20 MILLION INVESTMENT PROGRAM FOR 1977.

4. CRAWFORD SAID, HOWEVER, THAT TEXACO FEARS THE GOE MAY ONCE AGAIN OVERPRICE TEXACO'S SHARE OF THE CONSORTIUM'S CRUDE, WHILE CEPE'S SALES PRICE WILL REFLECT ACTUAL MARKET CONDITIONS. CRAWFORD COMMENTED THAT TEXACO COULD NOT ESTIMATE AT WHAT POINT ORIENTE CRUDE WOULD BECOME UNSALEABLE, BUT AN INCREASE OF EIGHT AND ONE-HALF PERCENT WOULD SURELY MAKE IT IMPOSSIBLE TO IMPLEMENT THE INVESTMENT PROGRAM.

5. CRAWFORD SAID THAT TEXACO WAS NOW PREPARING A FORMAL PROPOSAL TO SUBMIT TO VARGAS AND SEVILLA.

6. IN SEPARATE CONVERSATION, TEXACO CHIEF ECONOMIST TOLD EMBOFF THAT TEXACO MIGHT BE FORCED TO SHUT DOWN ITS ECUADOREAN OPERATION IF THE PRICE OF ORIENTE CRUDE WAS INCREASED BY 10 PERCENT. HE EXPLAINED THAT TEXACO'S SHARE OF INCREASED ARAMCO PRODUCTION WOULD BE MORE COMPETITIVE IN TEXACO'S REFINERIES THAN ECUADOREAN ORIENTE CRUDE.

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BLOOMFIELD

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